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INR/RES (RWARNER)
INR/I (SMCCORMICK)
SANTO DOMINGO FOR FCS AND FAS
TREASURY FOR ERIN NEPHEW
EXPORT IMPORT BANK FOR ANNETTE MARESH
USTDA FOR NATHAN YOUNG AND PATRICIA ARRIAGADA
OPIC FOR ALISON GERMAK

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XL
SUBJECT: AIR JAMAICA SALE: DEAL OR NO DEAL? GOJ CAN'T STAY ON MESSAGE

REF: KINGSTON 737; KINGSTON 521; KINGSTON 471; KINGSTON 405
KINGSTON 901; KINGSTON 922; KINGSTON 306

CLASSIFIED BY: Isiah Parnell, CDA; REASON: 1.4(B), (D)

Summary And Comment

11. (C) Air Jamaica (AJ), the beleaguered national airline, is days away from finding out whether Indigo Partners (operator of Spirit Airlines) will be its new owner. The airline, currently owned by the Government of Jamaica (GOJ), is eight months behind the original deadline for privatization, but a final decision appears imminent. According to sources involved in the AJ-side of negotiations, there is still a real possibility that U.S.-based private equity group Indigo Partners may walk away from the deal. Unfortunately, AJ has no other offers on the table. Conflicting public messages from GOJ officials are not helping AJ's bargaining position; the Minister of Tourism recently told reporters at a London tourism conference that the airline is now back on the market for sale. A few days later the Minister of Information told local reporters that the sale of AJ is contingent on a desperately needed Standby Agreement with the International Monetary Fund (IMF) (Reftel A). Adding to the confusion, an organization headed by a former AJ pilot has promised to picket AJ in Miami on December 15, unless Indigo withdraws from negotiations and the GOJ sells the airline to employees--at a hefty 20 percent discount from the undisclosed terms negotiated by Indigo. Given Jamaica's dire economic situation, it is crucial for the GOJ to offload this loss making albatross, which has bled more than USD 1 billion over the last decade. Prime Minister (PM) Bruce Golding's inability to coordinate his Jamaica Labour Party (JLP)-led administration to speak with one voice on such a vital issue is further evidence of his questionable leadership skills. The GOJ is facing monumental financial challenges including multiple rating agency downgrades, sluggish IMF negotiations, and falling tax revenue; the inability to get on message to ditch AJ is nothing short of mystifying. End Summary and Comment.

Final Weeks Approach

12. (C) The Air Jamaica Privatization Committee (AJPC), supported by funding from the World Bank's International Finance Corporation (IFC) and the U.S. Trade and Development Agency (USTDA), has spent nearly 20 months preparing for the divestiture of AJ, a goal now eight months past the original deadline of March 31 (Reftel B). Members of the AJPC are scheduled to meet with representatives of Indigo in Florida the week of November 30, in an attempt to firm up a deal. The final details of an agreement would still take a few more weeks to complete. Emboffs spoke with Dennis Chung, one of the members of the AJPC team, on November 20; he said there were still eight issues outstanding between the AJPC and Indigo, but only one or two were serious enough to cause a stalemate. AJPC recognizes that it faces a tough negotiator in William Franke, Managing Partner of Indigo, who is a veteran of the airline industry. (NOTE: Franke was Chairman and CEO of America West airlines for eight years and worked to acquire a majority stake in Spirit Airlines in 2006 where he serves as Chairman of the Board. He also serves as Chairman of Tiger Airways based in Singapore and WizzAir based in Hungary. END NOTE).

Absence of Alternatives

13. (C) AJ has lost nearly USD 1 billion over the last decade (Reftel C and D) including nearly USD 173 million in 2008. Some elements of the GOJ, including PM Bruce Golding, are desperate to remove the loss making entity from the GOJ's books, particularly before the next budget cycle begins at the end of March. However, Golding does not appear to have the leadership skills needed to galvanize support for the sale, even within his own party. (NOTE: The GOJ has been in negotiations with the IMF since July for a Standby Agreement; the delay in securing an agreement, coupled with multiple recent credit downgrades from international rating agencies, is placing greater pressure on the GOJ to get its financial house in order and to calm an increasingly skittish private sector). Minister of Tourism Ed Bartlett has been vocal about keeping AJ under Jamaican control to support the tourism sector by guaranteeing airlift to the island. The ever politically influential Gordon "Butch" Stewart, who owns the Sandals group of resorts and for a few years actually ran AJ, also is keen to keep the airline in Jamaican hands to bring a ready supply of tourists to his all inclusive hotels (Reftel E).

Airline Will Fail in Employees Hands

14. (C) There is no doubt that many Jamaicans have an emotional connection to AJ; when it appeared that the Trinidad and Tobago-owned Caribbean Airlines might purchase AJ, there was a vociferous public outcry, often in the form of newspaper editorials. (Reftel C). Although U.S. ownership appears more palatable to the Jamaican public, there are many who want the airline to remain Jamaican owned. A new organization Mayday Air Jamaica led by Wesley Sampson, a former president of the Jamaica Airline Pilots Association, is advocating this position. Sampson calls the airline a "national treasure" and "the only resource to be handed down to the children of Jamaica in the hopes of a better future." He is asking the GOJ to sell AJ to its employees for a 20 percent discount on whatever deal it has negotiated with Indigo (NOTE: The terms of a potential agreement with Indigo have remained private, but are likely to include the GOJ assuming all of AJ current outstanding debt, with a commitment from Indigo to adequately recapitalize the airline and retain the AJ brand, END NOTE). In a feeble attempt to disrupt holiday travel, Sampson is

promising to picket AJ flights in Miami on December 15 if the sale goes through to Indigo. In reality, the AJ employees do not have the capital to take control of the airline, nor do they have the leadership needed to adequately run it. Chung, commenting on this proposal to Emboffs, said the airline would definitely fail within six months if it were taken over by employees.

AJ In Better Shape, But Faces Stiff Competition

15. (C) AJ CEO Bruce Nobles spoke with Emboff on November 20. He discussed his continuing efforts to restructure the airline, cut costs, and position it for sale. AJ secured a parliamentary guarantee on June 11 for a USD 101.8 million loan to finance operations until the divestiture was complete, but AJ is still waiting on USD 23 million of these funds to be dispersed. Meanwhile, AJ is facing increased pressure from Jet Blue which has added new flights to Montego Bay and Kingston in the past year. Jet Blue also has plans to add new routes from Orlando and Boston to Montego Bay in 2010 (Reftel F). Nobles said the operating loss for AJ will be down 70 percent from last year, and the airline will be close to a break even point by next year. He said AJ is now managing cash flow pretty well, and revenue per seat mile is up five percent this year, while on time performance is up 50 percent over last year. He said advanced bookings are facing challenges, as ticket buyers are reluctant to buy seats on an airline with an uncertain future or with hopes that fares will fall.

JLP Needs To Get On Message

16. (C) On November 20 during an interview with The Gleaner newspaper, Minister of Information Daryl Vaz indicated that the AJ divestment was contingent on the signing of a Standby Agreement between the GOJ and the IMF (Reftel A). Nobles tried to distance the AJ sale from IMF negotiations by saying it was the first time he had heard of this link, adding that he is busy running the airline, and is not involved in discussions with the IMF. The week before, Tourism Minister Ed Bartlett, who was at the World Tourism Market in London, told the press that AJ was "now back on the market for divestment." Nobles, who also attended the event, said he pulled Bartlett aside to clarify that his comment was incorrect, as negotiations were still progressing with Indigo. Even after the warning, Bartlett chose to repeat the comment to the press later that day. Nobles told Emboff that Dennis Lalor, the chair of the JAPC who is leading negotiations with Indigo, "went berserk" when he heard Bartlett's comments. Nobles, who has been in three previous negotiations with Indigo's Franke, described him as a tough negotiator who should not be underestimated. Nobles said he has seen Franke walk away from deals at the very last minute, if he thinks deal will be more trouble than it is worth. Nobles, noted that the media back and forth by the GOJ is not helping the talks.

Comment

17. (C) As the AJ negotiations near their final days it is crucial for the JLP to stop equivocating in the press, and fall in line behind a single message of selling AJ. Despite PM Golding's personal interest in finalizing this sale, he has not been able to keep his party on message, including his own Information Minister. Echoing similar comments heard by the private sector, Nobles said he is "very concerned" about Golding's leadership. After a year of restructuring at the hands of Nobles, AJ is in the best position to be taken over by a new team and recapitalized. If the Indigo purchase fails or if Nobles, who has held to a hectic schedule trying to prepare the airline for sale, should depart, AJ is not likely to retain the management/operational improvements it has achieved. AJ has not really made a profit in its 40 years of

existence, so it is likely to slide back into its old ways of racking up multimillion dollar losses. It will be major political success for PM Golding if he can see this deal through, as well as a major benefit to the GOJ's fiscal bottom line. End Comment.
Parnell